

**Transcript of Remarks by Senator Kent Conrad (D-ND) at Press Briefing Responding to
Office of Management and Budget (OMB) Mid-Session Review
July 15, 2003**

The President has told us over and over not to worry, that his fiscal plan was on track. Well, this is a train that is off the track.

First of all, they told us there weren't going to be any deficits under his fiscal plan, in fact, he would have maximum pay down of the debt. Then we were told by the President well, yes, there are going to be deficits, but they are going to be small and short-term.

Now we see they certainly are not small. In fact, these are record budget deficits. This is by far the biggest budget deficit we have ever had in the history of the country in dollar terms. This chart shows this is a deficit of \$455 billion. The previous largest deficit we ever had was \$290 billion.

And then the President said to us well but as a share of the economy, it's not going to be that big. Well, that didn't prove to be true either. The deficit this year, if we take out Social Security from the calculation, will be the largest we have had since 1983, and the second largest in 57 years. These are large deficits by any measure. And it doesn't stop there.

The President said well they'll be short-term. They're not short-term. We see nothing but red ink under the President's fiscal plan for the entire rest of this decade. And we see the situation after this decade under the President's plan getting much worse.

And if you look at what is the problem, this is what we see for this year on revenue. Revenues as a percentage of income are headed toward the lowest level since 1959. Friends, we have a revenue problem as well as a deficit problem. Deficits are a function of spending and revenue. Our friends on the Republican side of the aisle only seem to want to focus on one part of the equation. They only want to talk about spending. But revenue is a key component as well. It is the mismatch between spending and revenue that leads to deficits, that leads to the accumulation of debt, that is sending us right over the fiscal cliff.

Seventy-seven percent of the decline in the fiscal 2003 surplus is explained by lower revenues. Is the White House listening? All they want to talk about is the spending.

Let's talk about the spending. Very interesting what we find on the spending increases that have occurred in 2001. The spending that was over the so-called baseline, 95 percent of the increase was as a result of defense, homeland security, and other responses to 9/11. In 2002, 93 percent of the increase: defense, homeland security and other responses to the events of 9/11. And in 2003, the spending over the baseline: 94 percent of it as a result of increased spending for defense, increased spending for homeland security and other items as a response to 9/11 and the war in Afghanistan and Iraq. So the increased spending that has occurred has been totally bipartisan. In fact, the President has asked for this increased money for defense, for homeland security and for other responses such as rebuilding New York.

The President says the biggest part of the problem is the economic slowdown and the war and the attack on this country. That's true in the short-term. But in the long-term over the budget period the biggest reason are the tax cuts the President has proposed and implemented. Thirty-six percent of the reversal from surplus to deficit is a direct result of the President's tax cuts that he has proposed and that he has implemented. Twenty-seven percent is additional shortfalls in revenue because the economy is not generating the revenue that was anticipated. So 63 percent is revenue. Nine percent economic downturn; 28 percent other legislation, and again that is almost entirely defense, homeland security and other responses to the attacks of 9/11.

I want to alert you that this number today, as shocking as it is, is the tip of the iceberg. To the extent that you just write about this year's number, I think you will be doing your readers and your viewers a disservice. The real crisis facing the fiscal affairs of this country are the long-term implications of the President's policies. This is from the President's own budget document. And what it shows is that we are in the sweet spot now – these are the good times because at this juncture the trust funds of Social Security and Medicare are throwing off huge cash surpluses. That all ends as the baby-boom generation starts to retire and when those trust funds go cash negative in the next decade, at that very time, the cost of the President's tax proposals explode, leading us into a deficit swamp unlike anything we have ever seen. That is the clear implication of where the President is taking this country.

The fact is that he's taking us right over the cliff, right over the fiscal cliff. The implications could not be more stark for the future because a future President and a future Congress will be faced with truly ominous decisions to shred Social Security and Medicare, to weaken the nation's defenses, to take other steps that are truly draconian because the President's plan does not add up.

I would just say in conclusion that it is time to sober up. The President's people are saying well we're going to cut this deficit in half in the next few years. After you first triple the deficit, quadruple it, cutting it in half is not exactly something to brag about. But the biggest part of this story is where this is all headed because as I say as the baby-boomers start to retire and the costs to the federal government explode at the very time the cost of the President's tax cut explodes leading us into an ocean of red ink. There is no ship of state that is going to be able to sail through these high seas. This is a ruinous course and it requires a correction.

Question: Why do you think OMB's estimates are so way off?

Conrad Answer:

I would just say very simply they are playing hide the ball with the American public on the fiscal crisis facing this country. They don't want to own up to what their own policies have led us into. Again, I'm not just talking about this year's number. This year's number is certainly of interest, and as I've indicated a record budget deficit, the biggest in the history of the country, but by far the greater concern is where this is all headed, and their own numbers show where it's headed – right over the cliff, that's where they're taking us. And interestingly enough when the roof caves in they'll have left town. If there is a second Bush term, they'll have left town. If we

just get to the end of this term and there is a replacement for this President, they'll have charted a course that is an absolute fiscal disaster. And any new President and any new Congress is going to have to cope with it, and the sooner we do the better.

Question: Aside from a summit, what do you suggest as your solution?

Conrad Answer:

One of the things I believe we're going to have to do is look now at fundamental tax reform. As you can see we're headed to the lowest revenue since 1959. I went back and looked at the tax gap, the difference between what is owed and what is being paid. In 1998, the last year for which there are complete numbers, that was \$240 billion, probably closer to \$300 billion now. We've got a tax system that is not functioning appropriately. It is not bringing in the revenue the law has said we should bring in. So I think we're going to have to go back to basics here. We're also going to have to deal with the long-term spending. You know you look where the big increases are – they've been in defense and homeland security. Most people would acknowledge those were necessary. But we now have to ask ourselves is it sustainable to have the continued increases that the President is proposing? And this applies to every part of the budget. I think we're going to have to go back to the basics and review all spending, and review the revenue which is absolutely flat.

Question: How big do you think the deficit has to get before it's not just Democrats holding these press conferences urging something be done, that the Republican majority, or a sizeable number of Republicans - not just a handful of moderates - before the Republicans start seeing the same problems you see?

Conrad Answer:

You know I've been singing this song, as has Congressman Spratt consistently for two years. I predicted two years ago that they were going to lead us into the deficit swamp, they denied it. I predicted two years ago that it was going to be far more serious than they were asserting. I said they would be raiding Social Security. Now we see they're not only raiding Social Security for one year, two years, five years, they are raiding it every year for the entire next decade and at the worst possible time right before the baby-boomers retire. I can tell you Republican Senators – I rode in an elevator with them this morning – several Republican Senators told me they are now very concerned about the trajectory.